

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------------|---|-----------------|
| AN EXAMINATION BY THE PUBLIC SERVICE |) | |
| COMMISSION OF THE APPLICATION OF THE |) | |
| FUEL ADJUSTMENT CLAUSE OF KENTUCKY |) | CASE NO. 94-460 |
| POWER COMPANY FROM NOVEMBER 1, 1992 |) | |
| TO OCTOBER 31, 1994 |) | |

O R D E R

Pursuant to Commission Regulation 807 KAR 5:056, the Commission on December 14, 1994 established this case to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Kentucky Power Company ("Kentucky Power") for the 2 years ended October 31, 1994, and to determine the amount of fuel cost that should be transferred (rolled-in) to its base rates to reestablish its FAC charge.

As part of its review, the Commission ordered Kentucky Power to submit certain information concerning its fuel procurement, its fuel usage, and the operation of its FAC. Kentucky Power submitted this information on January 20, 1995. A public hearing was held in this case on March 2, 1995 at which Betsy Kavander, an official of the American Electric Power Company, and Bill England, Ranie Wohnhas, and Errol Wagner, Kentucky Power officials, testified.

Kentucky Power proposed that the month of June 1994 be used by the Commission as the base period (test month) for the purpose of arriving at the base fuel cost [F(b)] and the KWH Sales [S(b)] components of its FAC. It further proposed that its base fuel cost

be changed to 11.45 mills per KWH, the actual fuel cost for the proposed base period. Kentucky Power's current base fuel cost is 12.92 mills per KWH.

In establishing the appropriate level of base fuel cost to be included in Kentucky Power's rates, the Commission must determine whether the proposed base period fuel cost per KWH is representative of the level of fuel cost currently being experienced by Kentucky Power. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of June 1994 is a reasonably representative generation month for Kentucky Power. The analysis of Kentucky Power's monthly fuel clause filings showed that the actual fuel cost incurred for the 2-year period in question ranged from a low of 10.34 mills per KWH in February 1993 to a high of 13.46 mills per KWH in July 1993, with an average cost for the period of 11.56 mills per KWH. Based upon this review, the Commission finds that Kentucky Power has complied with Commission Regulation 807 KAR 5:056 and that the proposed base period fuel cost of 11.45 mills per KWH should be approved.

In implementing a new base period fuel cost, the Commission recognizes that the potential for underrecovery of fuel costs exists. Kentucky Power bills its customers on a daily cycle basis. Customers are billed only after service is received. The average Kentucky Power customer has a billing period which straddles 2 calendar months. As a result, the customer's monthly bill is partially for usage in the current calendar month and partially for

usage in the prior calendar month. As the change in the base period fuel cost will occur during the billing period, not at its beginning, Kentucky Power faces the prospect of assessing its customers a fuel adjustment charge based on an incorrect base period fuel cost for a portion of the billing period.

This problem is compounded by the lag in billing customers for the FAC rate. Each customer incurs a FAC charge with every billing period. Because of the time required to calculate the precise charge for that billing period, however, the charge incurred is not actually billed until two billing periods later.¹

The Commission has faced this problem in prior cases² and has found that, while no precise solution exists, a reasonable solution is to average the base period fuel cost prior to and after roll-in in computing the fuel adjustment charge for the billing period in

¹ Consider the following example: The new base period fuel cost is established as 11.45 mills per KWH effective for service rendered on and after July 1, 1995. Assume the actual fuel costs for May and June 1995 are 15.14 and 17.00 mills per KWH, respectively. Since half of May sales are billed in May and the other half is billed in June, the base fuel cost of 12.92 mills per KWH would apply to both months. Thus, the applicable fuel adjustment charge for May would be 2.22 mills per KWH (15.14 - 12.92) and would be recoverable from customers beginning with the first cycle billed in July 1995. The recovery of June fuel costs would not be as easily computed since that half of the sales billed in June would be subject to the old base fuel cost of 12.92 mills per KWH and the other half would be subject to the new base fuel cost of 11.45 mills per KWH.

² See, e.g., Case No. 8056, An Examination By The Public Service Commission Of The Application Of The Fuel Adjustment Clause Of Kentucky Power Company Pursuant To 807 KAR 5:056E, Sections 1(11) and (12).

which the new base period fuel cost (after roll-in) becomes effective.¹ The use of this procedure in the case at bar, the Commission believes, will eliminate any material impact on Kentucky Power and its customers from the roll-in of the fuel cost to base rates.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

1. Kentucky Power has complied with the provisions of 807 KAR 5:056.

2. The test month of June 1994 should be used as Kentucky Power's base period for this review.

3. Kentucky Power's proposed base period fuel cost of 11.45 mills per KWH should be approved.

4. The establishment of a base fuel cost of 11.45 mills per KWH requires a transfer (roll-in) of <1.47> mills per KWH from the FAC rate to Kentucky Power's base rates and can best be accomplished by a uniform decrease in all energy charges.

5. The rates and charges in Appendix A reflect the transfer (roll-in) to base rates of the differential between the current base fuel cost of 12.92 mills per KWH and the proposed fuel cost of 11.45 mills per KWH.

¹ Applying this method to the example presented in Note 1, the base fuel cost for June would be the average of the base fuel cost after roll-in of 11.45 mills per KWH and the base fuel cost before roll-in of 12.92, or 12.19. Thus, the fuel adjustment charge for June would be 3.40 mills per KWH (15.59 - 12.19) and would be recovered from the customers beginning with the first cycle billed in August.

6. The rates in Appendix A, attached hereto and incorporated herein, are fair, just and reasonable and should be approved for service rendered on and after July 1, 1995.

7. The FAC rate for May 1995, which will be billed in July 1995, should be computed using the base fuel cost prior to roll-in of 12.92 mills per KWH.

8. The FAC rate for June 1995, which will be billed in August 1995, should be computed using a base fuel cost of 12.19 mills per KWH, the average of the base fuel costs prior to and after roll-in.

9. The FAC rate for July 1995 and succeeding months should be computed using the base fuel cost of 11.45 mills per KWH.

IT IS THEREFORE ORDERED that:

1. The charges collected by Kentucky Power through the FAC for the period November 1, 1992 through October 31, 1994 be and they hereby are approved.

2. Kentucky Power's proposed base period fuel cost of 11.45 mills per KWH be and it hereby is approved.

3. The rates in Appendix A are fair, just and reasonable and are approved for service rendered on and after July 1, 1995.

4. The current base rate of 12.92 mills per KWH shall be used to compute the FAC rate for May 1995.


5. The average base fuel cost of 12.19 mills per KWH shall be used to compute the FAC rate for June 1995.

6. The base fuel cost of 11.45 mills per KWH shall be used to compute the FAC rate for July 1995 and succeeding months.

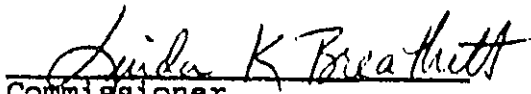
7. Within 30 days from the date of this Order, Kentucky Power shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 5th day of April, 1995.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 94-460 DATED APRIL 5, 1995

The following rates and charges are prescribed for the customers in the area served by Kentucky Power Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

TARIFF R. S. (Residential Service)

RATE:

Energy Charge

| | |
|----------------------------|----------------|
| First 500 KWH per month | 4.992¢ per KWH |
| All Over 500 KWH per month | 4.260¢ per KWH |

TARIFF RS - LM - TOD (Residential Load Management Time-of-Day Electric Service Schedule)

RATE:

Energy Charge:

| | |
|--|----------------|
| All KWH used during on-peak billing period | 7.324¢ per KWH |
| All KWH used during off-peak billing period | 1.890¢ per KWH |

EXPERIMENTAL TARIFF R.S. - T.O.D. (Residential Service Time-of-Day)

RATE:

Energy Charge:

| | |
|---|----------------|
| All KWH used during on- peak billing period | 7.324¢ per KWH |
| All KWH used during off- peak billing period | 1.890¢ per KWH |

TARIFF S.G.S.
(Small General Service)

RATE: (Tariff Code 211)

Energy Charge:

| | |
|----------------------------|----------------|
| First 500 KWH per month | 6.252¢ per KWH |
| All over 500 KWH per month | 3.608¢ per KWH |

LOAD MANAGEMENT TIME-OF-DAY PROVISION:

RATE:

Energy Charge:

| | |
|---|----------------|
| All KWH used during on-peak billing period | 9.027¢ per KWH |
| All KWH used during off-peak billing period | 1.999¢ per KWH |

TARIFF M.G.S.
(Medium General Service)

RATE:

| | Service Voltage | |
|---|------------------|----------------|
| | <u>Secondary</u> | <u>Primary</u> |
| <u>Energy Charge:</u> | | |
| KWH equal to 200 times KW of monthly billing demand | 5.230¢ | 4.673¢ |
| KWH in excess of 200 times KW of monthly billing demand | 4.262¢ | 4.015¢ |

RECREATIONAL LIGHTING SERVICE PROVISION

RATE:

Energy Charge: 5.248¢ per KWH

LOAD MANAGEMENT TIME-OF-DAY PROVISION: (Tariff Code 223,224)

RATE:

Energy Charge:

| | |
|---|----------------|
| All KWH used during on-peak billing period | 8.100¢ per KWH |
| All KWH used during off-peak billing period | 2.553¢ per KWH |

EXPERIMENTAL TARIFF M.G.S. - T.O.D.
(Medium General Service Time-of-Day)

RATE:

Energy Charge:

| | |
|---|----------------|
| All KWH used during on- peak billing period | 8.100¢ per KWH |
| All KWH used during off- peak billing period | 2.553¢ per KWH |

TARIFF L.G.S.
(Large General Service)

RATE:

| | <u>SERVICE VOLTAGE</u> | | |
|-----------------------|------------------------|----------------|------------------------|
| | <u>Secondary</u> | <u>Primary</u> | <u>Subtransmission</u> |
| Energy Charge per KWH | 3.572¢ | 2.913¢ | 2.384¢ |

LOAD MANAGEMENT TIME-OF-DAY PROVISION:

RATE:

Energy Charge:

| | |
|---|----------------|
| All KWH used during on- peak billing period | 6.720¢ per KWH |
| All KWH used during off- peak billing period | 1.908¢ per KWH |

TARIFF Q.P.
(Quantity Power)

RATE:

| | <u>SERVICE VOLTAGE</u> | | |
|-----------------------|------------------------|------------------------|---------------------|
| | <u>Primary</u> | <u>Subtransmission</u> | <u>Transmission</u> |
| Energy Charge per KWH | 1.220¢ | 1.171¢ | 1.155¢ |

TARIFF C.I.P. - T.O.D.
(Commercial and Industrial Power - Time-of-Day)

RATE:

| | <u>SERVICE VOLTAGE</u> | | |
|-----------------------|------------------------|------------------------|---------------------|
| | <u>Primary</u> | <u>Subtransmission</u> | <u>Transmission</u> |
| Energy Charge per KWH | 1.220¢ | 1.171¢ | 1.155¢ |

TARIFF I.R.P.
(Interruptible Power)

RATE:

| | <u>SERVICE VOLTAGE</u> | |
|-----------------------|------------------------|---------------------|
| | <u>Subtransmission</u> | <u>Transmission</u> |
| Energy Charge per KWH | 1.171¢ | 1.155¢ |

TARIFF M. W.
(Municipal Waterworks)

RATE:

| | |
|------------------------|----------------|
| <u>Energy Charge:</u> | |
| All KWH used per month | 4.152¢ per KWH |

TARIFF O. L.
(Outdoor Lighting)

MONTHLY RATE:

A. OVERHEAD LIGHTING SERVICE

| | |
|---------------------------|-----------------|
| 1. High Pressure Sodium | |
| 100 watts (9,500 Lumens) | \$5.02 per lamp |
| 150 watts (16,000 Lumens) | 5.89 per lamp |
| 200 watts (22,000 Lumens) | 7.46 per lamp |
| 2. Mercury Vapor* | |
| 175 watts (7,000 Lumens) | \$5.00 per lamp |
| 250 watts (11,000 Lumens) | 6.64 per lamp |
| 400 watts (20,000 Lumens) | 8.15 per lamp |

B. POST-TOP LIGHTING SERVICE

| | |
|---|-----------------|
| 1. Mercury Vapor* | |
| 175 watts (7,000 Lumens) on 12-foot post | \$5.88 per lamp |

2. High Pressure Sodium
100 watts (9,500 Lumens) on
12-foot post \$8.79 per lamp

C. FLOODLIGHTING SERVICE

1. High Pressure Sodium

| | |
|---------------------------|-----------------|
| 200 watts (22,000 Lumens) | \$8.74 per lamp |
| 400 watts (50,000 Lumens) | 11.77 per lamp |
2. Metal Halide

| | |
|---------------------------|------------------|
| 250 watts (20,500 Lumens) | \$13.86 per lamp |
| 400 watts (36,000 Lumens) | 18.01 per lamp |

TARIFF S. L. (Street Lighting)

AVAILABILITY OF SERVICE

Available for lighting service for all the lighting of public streets, public highways, and other public outdoor areas in municipalities, counties, and other governmental subdivisions where such service can be supplied from the existing general distribution systems.

MONTHLY RATE:

A. Overhead Service on Existing Distribution Poles

1. Mercury Vapor

| | |
|--------------------------|-----------------|
| 175 Watts (7,000 Lumens) | \$4.08 per lamp |
|--------------------------|-----------------|
2. High Pressure Sodium

| | |
|---------------------------|-----------------|
| 100 Watts (9,500 Lumens) | \$4.36 per lamp |
| 150 Watts (16,000 Lumens) | 4.81 per lamp |
| 200 Watts (22,000 Lumens) | 5.50 per lamp |
| 400 Watts (50,000 Lumens) | 7.38 per lamp |

B. Underground Service on Existing Special Metal Pole - Post Top

1. Mercury Vapor

| | |
|--------------------------|-----------------|
| 175 Watts (7,000 Lumens) | \$4.08 per lamp |
|--------------------------|-----------------|

C. Service on New Wood Distribution Poles

1. High Pressure Sodium

| | |
|---------------------------|-----------------|
| 100 Watts (9,500 Lumens) | \$6.99 per lamp |
| 150 Watts (16,000 Lumens) | 7.56 per lamp |
| 200 Watts (22,000 Lumens) | 8.74 per lamp |
| 400 Watts (50,000 Lumens) | 10.63 per lamp |

D. Service on New Metal or Concrete Poles

1. High Pressure Sodium

| | |
|---------------------------|------------------|
| 100 Watts (9,500 Lumens) | \$14.43 per lamp |
| 150 Watts (16,000 Lumens) | 14.91 per lamp |
| 200 Watts (22,000 Lumens) | 18.77 per lamp |
| 400 Watts (50,000 Lumens) | 19.18 per lamp |